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SUBJECT: BULGARIA 2008 INVESTMENT CLIMATE STATEMENT

Ref: 07 STATE 158802

SUBJECT: Bulgaria - 2008 Investment Climate Statement.

¶A. OPENNESS TO FOREIGN INVESTMENT

Bulgaria has a liberal foreign investment regime with a top government priority to attract foreign investment. Promising sectors of the economy for foreign investment include: energy, information technology, transportation, telecommunications, and agriculture. Bulgaria provides considerable incentives for job creation. Many municipalities are prepared to grant concessions or other favorable treatment for significant investments. Bulgaria has a well-educated workforce and relatively low labor costs. Its geographic position places it at the crossroads of Europe, the Middle East, and the CIS. Bulgaria joined WTO in December 1996, NATO in April 2004, and the EU on January 1, 2007.

Investment Trends and Policies

Sound economic performance and political stability have enhanced Bulgaria's ability to attract respected international investors. Gradual convergence with the EU common market and a national currency pegged to the Euro provide incentives for increased trade and investment opportunities. While Bulgaria's international credit rating is stable, Bulgaria's reliance on capital account inflows is seen as a potential macroeconomic weakness that could undermine the peg and boost inflation.

The Investment Promotion Act, last amended in May 2007, stipulates equal treatment of foreign and domestic investors. It creates conditions for improved administrative services and includes an investment incentive package. The law encourages implementation of investment projects over a period of up to three years. The law explicitly recognizes intellectual property and securities as a foreign investment.

Common Forms of Investment

The most common type of organization for foreign investors is a limited liability company. Other typical forms are joint stock companies, joint enterprises, business associations, general and limited partnerships, and sole proprietorships.

The main controlling bodies of law are: the 1991 Commercial Code, which regulates commercial and company law, including the creation and rights of legal entities, and the 1951 Law on Obligations and Contracts, which regulates civil transactions. These laws are deemed generally adequate and neither limits foreign participation in legal entities.

The 2003 Law on Special Purpose Investment Companies allows for public investment companies (SPIC) in real estate and receivables. Since a SPIC is considered a pass-through structure, at least 90 percent of its net income must be distributed to shareholders, who are taxed on the dividends received. Prospective U.S. investors should consult appropriate legal counsel for up-to-date legal information and conduct due diligence before making any obligations.

Investment Barriers

Problems most often encountered by foreign investors in Bulgaria are: government bureaucracy; poor infrastructure; corruption; frequent changes in the legal framework; and a protracted privatization process. In addition, a weak judicial system limits investor confidence in the courts' ability to enforce ownership and shareholders rights, contracts, and intellectual property rights.

EU accession requirements have led to the adoption of a constitutional amendment which will, beginning in 2014, allow EU citizens and entities to acquire real property, while all other foreigners will be able to do so only on the basis of an international agreement ratified by the Bulgarian Parliament, thereby favoring EU investors over those from the United States. There are no legal restrictions against acquisition of land by locally registered companies with majority foreign participation.

Privatization

The Privatization Agency (PA) administers the privatization of all state-owned companies. The privatization methods include: public auction, public tender and stock exchange. Foreign companies, including state-owned ones, may purchase Bulgarian state-owned firms. Bulgaria sold some of its district heating plants (Plovdiv, Russe, Varna) in 2007 as part of a major privatization package. Some of the most attractive companies slated for privatization in 2008 are the district heating plants in the capital city Sofia and in two other cities (Pernik and Shumen), the Bulgarian Navigation Fleet, and the military machine building plant in Sopot (South-Central Bulgaria) which is awaiting a new privatization strategy. The government's privatization program will close out in 2008, as most significant assets available for privatization have already been transferred to the private sector.

The 2002 Privatization and Post-privatization Act instituted a Post-Privatization Control Agency under the authority of the Council of Ministers tasked to oversee the implementation of privatization contracts. This body ensures that non-price privatization commitments (employee retention, technology transfer, environmental liability and investment) in the privatization selection criteria are honored. In addition, creditors are no longer required to claim their receivables within six months from the start of the privatization.

Concessions

Under the new 2006 Law on Concessions, the state is authorized, on the basis of a concession agreement, to grant private investors a partial monopoly. Concessions are awarded on central and/or local government property, on the basis of a tender, and are issued for up to 35 years. The concession period may not be extended beyond this time limit. There are three main categories of public interest for concession: construction, services, and mining and exploration. Potential fields for concessions may therefore include the construction of roads, ports and airports, power generation and transmission, mining, petroleum exploration/drilling, telecommunications, forests and parks, beaches, and nuclear installations.

¶B. CONVERSION AND TRANSFER POLICIES

In 1999, Bulgaria replaced much of its outdated and fragmented foreign currency legislation and liberalized current international transactions in accordance with IMF Article VIII obligations. Under

amendments to the 1999 Foreign Currency Act, approved by Parliament in 2003, anyone may take up to BGN 25,000 or its foreign exchange equivalent out of the country without documentation. However, the export of between BGN 8,000 and BGN 25,000 or its foreign exchange equivalent must be declared at customs. Export of amounts larger than BGN 25,000 must be accompanied by a declaration about the source of these funds and supported by documents certifying that the person does not owe taxes. No tax certificate is required for foreigners exporting the cash equivalent of BGN 25,000 or greater provided the amount is equal to the amount declared (or less) when imported. The import of more than BGN 8,000 or its foreign exchange equivalent must be declared at customs.

The law also stipulates that payments abroad may be executed only through bank transfers. Transfers over BGN 25,000 for current international payments (imports of goods and services, transportation, interest and principal payments, insurance, training, medical treatment, and other purposes defined in Bulgarian regulations) must be supported by documentation showing the need and purpose of such payments.

¶C. EXPROPRIATION AND COMPENSATION

According to Article 17 of the Bulgarian Constitution, private real property is protected by law. Depending upon the purpose, and only in the case that public needs cannot be met by other means, expropriation actions may be undertaken by the Council of Ministers or the regional Governor, provided that the owner is adequately compensated. Monetary compensation at market price is the primary method. No tax is levied on the expropriation transaction. Expropriation actions of the Council of Ministers can be appealed directly to the Supreme Court on the basis of the expropriation action, the property appraisal, or the size of compensation. Regional Governor's expropriation actions can be appealed to the local court. In its Bilateral Investment Treaty (BIT) with the United States, Bulgaria committed itself to international arbitration in the event of expropriation and other investment disputes.

¶D. DISPUTE SETTLEMENT

The Judicial System

Bulgaria's 1991 Constitution serves as the foundation of the legal system and creates an independent judicial branch. However, the judiciary has been suffering from systematic flaws, serious backlog and opaque procedures that hamper the swift and fair administering of justice. Corruption remains a serious problem with public opinion polls indicating that bribes are commonly paid in the justice sector. In 2007, the Bulgarian Parliament passed Constitutional amendments followed by a new Judicial System Act aimed at strengthening disciplining of magistrates, increasing the efficacy of the court system, and preventing corruption in the justice system. As a result, an Inspectorate was created under the judiciary's governing body, the Supreme Judicial Council (SJC), which shall monitor the conduct of magistrates and initiate disciplinary proceedings. Members of the Inspectorate are elected with a supermajority by Parliament. At the end of 2007, Parliament appointed nine of the 11 members of the Inspectorate in a highly politicized process that attracted wide-spread criticism. It us unclear whether the Inspectorate will be effective in uncovering cases of improper magistrates' conduct.

Bulgaria's judicial system includes judges, prosecutors and investigators. The proposition that prosecutors and investigators would be more efficient as part of the executive branch has been widely debated but a Constitutional Court decision found that such reforms could only be passed through major constitutional amendments by a Grand National Assembly. The governing body of the judiciary is a 25-member Supreme Judicial Council that has broad powers to appoint, discipline and dismiss magistrates.

There are three levels of courts. 117 regional courts exercise jurisdiction over civil and criminal cases. Above them, 29 district courts (including the Sofia City Court) have trial-level jurisdiction in civil cases where claims exceed 10,000 BGN, in serious criminal cases, and in other cases as provided by law. The district courts are also courts of appellate review for regional

court decisions. The five appellate courts may review the decisions of the district courts. On the highest level is the Supreme Court of Cassation. On issues of law, the Supreme Court of Cassation has appellate jurisdiction over all civil cases involving claims over 5,000 BGN and criminal cases. The new Administrative Procedure Code, adopted in April 2006, introduced the establishment of 28 courts throughout the country specialized in reviewing appeals of administrative acts.

As of March 2007 the administrative courts officially started receiving complaints. The decisions issued by the administrative courts can be disputed before the Supreme Administrative Court as a final appeal. The Supreme Administrative Court also rules on the legality of acts by the Council of Ministers and the ministries. The Supreme Courts hear cases in three-judge panels, whose decisions may be appealed to a five-judge panel of the same court. Decisions by the five-judge panels are final and binding.

The Constitutional Court is not integrated into the rest of the judiciary. It issues final interpretations of the constitution, rules on constitutional challenges to laws and acts, rules on international agreements prior to Parliamentary ratification, and reviews domestic laws to determine their consistency with international legal norms.

Bulgarian law provides for jurors only in criminal cases. Under Bulgarian procedural law, first-instance civil cases are brought before one judge in the regional or the district court, depending on the case. Administrative sanctions may be appealed to the regional courts and one judge reviews such appeals. Administrative acts are subject to administrative and court appeal.

Bankruptcy

The 1994 Commercial Code Chapter on Bankruptcy provides for reorganization or rehabilitation of a legal entity, attempts to maximize asset recovery, and provides for fair and equal distribution among all creditors. The law applies to all commercial entities, except public monopolies or state-owned companies established by a special law. Bank bankruptcies are regulated under the Bank Bankruptcy Act, while the 1996 Insurance Act regulates insurance company failures.

Under Part IV of the Commercial Code, debtors or creditors can initiate bankruptcy proceedings. The debtor must declare bankruptcy within 30 days of becoming insolvent. Once insolvency is determined, the court appoints an interim trustee to represent and manage the company, take inventory of property and assets, identify and convene the creditors, and develop a recovery plan. At the first meeting of the creditors a trustee is nominated; usually this is just a reaffirmation of the court appointed trustee. Non-performance of a money obligation must be adjudicated (res judicata) before the bankruptcy court can determine whether the debtor is insolvent. Additionally, amendments passed in 2003 add a presumption of insolvency when the debtor is unable to perform an executable obligation, has suspended all payments, or when the debtor can only pay the claims of certain creditors.

Creditors must declare all debts owed to them within one month of the start of bankruptcy proceedings. The trustee then has seven days to compile a list of debts. A rehabilitation plan or a scheme of distribution (in cases of liquidation) must be proposed no later than a month after the date on which the court approves the list of debts. The court must grant approval of the plan by the creditors within seven days. After creditors' approval the court endorses the plan and terminates the bankruptcy proceeding. The lack of trained trustees has been a problem in the past. The June 2003 amendments provided for examinations for individuals applying to become trustees and obliged the Ministers of Justice and Economy to organize annual training courses for trustees. A Regulation on the procedure for appointment, qualification and control over the trustees, developed by the Ministries of Justice, Economy and Finance was published in June 2005.

The methods of liquidating assets were also revised by the June 2003 amendments. The main objective was to establish a legal framework for selling assets that accounts for the character of bankruptcy

proceedings, thus avoiding the need to apply the Civil Procedure Code. The new regime includes rules requiring a greater degree of publicity for asset sales. The amendments limited the rights to appeal judicial decisions made during bankruptcy proceedings.

Execution of Judgments

To execute a judgment, a final ruling must be obtained. The court of first instance must then be petitioned for a writ of execution (based on the judgment). On the basis of the writ of execution, a specialized category of professionals, execution agents, seize the assets or ensure the performance of the ordered action. The institutional framework for execution of judgments was improved with a 2005 law allowing private professionals to act as execution agents. Since 2006 both private and state execution agents operate in Bulgaria. Two years after the introduction of private execution agents, businesses report a dramatic increase in the efficiency of executive of judgments. Still, Bulgarian and foreign observers caution that the proceedings for the execution of judgments and other enforceable claims under the Code of Civil Procedure remain cumbersome. The new Civil Procedure Code, effective March 2008, should address some of these deficiencies. Foreign judgments can be executed in Bulgaria. Execution depends on reciprocity, as well as bilateral or multilateral agreements, as determined by an official list maintained by the Ministry of Justice. The United States does not currently have reciprocity with Bulgaria; Bulgarian courts are not obliged to honor decisions of U.S. courts. All foreign judgments are handled by the Sofia City Court, which must determine that the judgment does not violate public decrees, standards, or morals before it can be executed. There are also cases defined by the Civil Procedure Code (certain real estate issues and Bulgarian precedents), in which judgments cannot be executed even if they conform to Bulgarian laws and morals.

International Arbitration

Pursuant to its Bilateral Investment Treaty (BIT) with the United States, Bulgaria has committed to a range of dispute settlement procedures starting with notification and consultations. Bulgaria accepts binding international arbitration in disputes with foreign investors.

The most experienced arbitration institution in Bulgaria is the Arbitration Court (AC) of the Bulgarian Chamber of Commerce and Industry (BCCI). Established more than 110 years ago, the AC had been competent to hear civil disputes between legal persons, one of whom must be seated outside Bulgaria. It began to act as a voluntary arbitration court between natural and/or legal persons domiciled, respectively seated in Bulgaria since 1989.

Arbitration is regulated by the 1988 Law on International Commercial Arbitration, which complies with the United Nations Commission on International Trade Law (UNCITRAL) Model Law. According to the Code of Civil Procedure not all disputes may be resolved through arbitration. Thus, disputes regarding rights over real estate situated in the country, alimony, or individual labor disputes may only be heard by the courts. Additionally, under the Code of Private International Law of 2005, Bulgarian courts have exclusive competence over industrial property disputes regarding patents issued in Bulgaria.

Regarding arbitration clauses selecting a foreign court of arbitration, the Code of Civil Procedure mandates that these clauses would only be admissible if at least one of the parties has its seat or residence abroad. As a result, foreign-owned, Bulgarian-registered companies having a dispute with a Bulgarian entity can only have arbitration in Bulgaria. However, under the Law on the International Commercial Arbitration, the arbitrator himself could be a foreign person. Under the same act, the parties can agree on the language to be used in the arbitration proceedings. Arbitral awards are enforced through the judicial system. The party must petition the Sofia City Court for a writ of execution. Having obtained a writ however, the creditor needs then to execute the award using the general framework for execution of judgments in the country. Foreclosure proceedings may also be initiated.

Bulgaria is a member of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards and the 1961 European Convention on International Commercial Arbitration. Bulgaria is also a signatory of the International Center for Settlement of Investment Disputes (ICSID) convention and the Convention on the Settlement of Investment Disputes between States and Nationals of Other States. There is a Court of Arbitration -- an ADR center for domestic business disputes -- at the Bulgarian Industrial Association(BIA).

Mediation---------

Businesses wishig to use mediation to solve their disputes in Bugaria may find it difficult to locate experienced ediators. Mediation as a practice has only recenly begun to develop in the country following the adoption of the Mediation Act at the end of ¶2004. BCCI and the American Chamber of Commerce (AmCham) responded promptly by opening commercial mediation centers. The mediators at these centers have been trained with USAID assistance.

¶E. PERFORMANCE REQUIREMENTS/INCENTIVES

Bulgaria does not impose export performance or local content requirements as a condition for establishing, maintaining, or expanding an investment. For most categories of expatriate personnel from countries outside the EU a work permit is required. Residence permits are often difficult to obtain. A 1:10 ratio requirement between foreign, non-EU residents and Bulgarian employees is applied. A June 1999 law regulating gambling imposes license requirements on foreigners organizing games of chance.

The Invest Bulgaria Agency (IBA) (www.investbg.government.bg), the government's coordinating body for investment, provides information services, individual administrative services and assessment of qualification to receive investment incentives. First-class investments (investments over 70 million BGN, about USD 50 million) are deemed to be priority "Class A" investment projects. At the request of investors receiving first-class investment certificates, IBA can recommend that the competent authorities grant them free real estate (either state or municipal property). For first-class investments, the Council of Ministers may provide state financing for critical infrastructure deemed necessary for the investment plan's implementation. Additionally, IBA represents first and second-class investors "Class B" (investments of USD 28 - 50 million) before all central and territorial executive authorities and the local self-government authorities, and processes all administrative documents. The government policy for promotion of investment is not applicable to investments made pursuant to the Privatization Law, coal and steel production, shipbuilding, synthetic production, and fish industry. In 2003, the GOB introduced tax incentives for investments in regions with high unemployment. VAT exemption on imports for investment projects over 10 million BGN (about USD 7.5 million) under certain conditions, was introduced in 2004.

¶F. RIGHT TO PRIVATE OWNERSHIP/ESTABLISHMENT

The Constitution (Article 19) states that the Bulgarian economy "shall be based on free economic initiative." Private entities can establish and own business enterprises engaging in any profit-making activities, unless expressly prohibited by law. Bulgaria's Commercial Code guarantees and regulates the free establishment, acquisition, and disposition of private business enterprises. Competitive equality is the standard applied to private enterprises in competition with public enterprises with respect to access to markets, credit, and other business operations, such as licenses and supplies.

¶G. PROTECTION OF PROPERTY RIGHTS

Bulgarian law protects the acquisition and disposition of property rights. In practice, the protection of property rights is subject to difficulties of varying degrees. Although Bulgarian Intellectual Property Rights (IPR) legislation is generally adequate - and in some cases stronger than in other EU countries - with modern patent and copyright laws and criminal penalties for copyright infringement, industry representatives believe effective IPR protection requires stronger enforcement, including stricter

penalties for offenders. In 2006, a major revision of the IPR-related legal framework was made. The Law on Copyright and Related Rights, the Law on Patents and Registration of Utility Models, the Law on Marks and Geographical Indications, the Law on Industrial Design and the Penal Code were all amended or supplemented to harmonize with international standards. As a major step toward improving the work of the judiciary, a completely new Penal Procedure Code was adopted by Parliament in 2006, while amendments to the Constitution are still being considered. The strongly criticized GOB Decree on Border Measures for Protection of IPRs was replaced by EU Regulation 1383/2003 (customs regulation) and is now being directly applied.

Additionally, the government still needs to strengthen institutional capacity, coordination, and in some cases, the will to address effectively major enforcement problems, especially in combating and prosecuting organized crime groups. To improve the coordination among institutions and push for a more proactive dialogue with the private sector, in January 2006 an inter-ministerial Council for Protection of IPRs was set up. The Council has since initiated and supported most of the amendments to the IPR-related legislation, and promoted better inter-governmental coordination and outreach to industry. A few industrial groups currently have intellectual property disputes before the government.

In acknowledgement of the improvements made in IPR field, in April 2006 Bulgaria was removed from the Special 301 Watch List. Although the sale of pirated optical disc media (ODM) is diminishing, Internet cyber crimes are turning out to be the greatest challenge for the GOB and creative industry now. At a rate of 69 percent in 2006, software piracy is pervasive both among the end users and system builders. The government took good steps in 2007 to address IP problems, but must continue its efforts to reign in piracy.

Bulgaria is a member of the World Intellectual Property Organization (WIPO) and a signatory to key international agreements.

Copyrights

The 1993 Law on Copyright and Related Rights protects literary, artistic, and scientific works. Article 3 provides a full listing of protected works including computer programs (which are protected as literary works). The Law distinguishes between moral and economic rights. The use of protected works is prohibited without the author's permission, except in certain instances. Since 2000 the Law has gone through major revision to comply with EU and international legislation.

The term for protection of copyrighted works was extended from 50 to 70 years after the author's death. The new term of protection is retroactive, i.e., a term of protection that expired at the moment of approval of the amendments is revived within the framework of the 70-year term of protection. For films and other audio-visual works, copyrights are protected during the lives of director, screenplay-writer, cameraman, or the author of dialogue or music, plus 70 years. Other amendments to the law enable copyright owners to file civil claims to suspend the activities of pirates; provide for confiscation of equipment and pirated materials; enhance border control over pirated material; introduce a new neighboring right for film producers; and, harmonize Bulgarian legislation with the EU Association Agreement.

The Copyright Office of the Ministry of Culture is responsible for copyright matters in Bulgaria. The National Film Center is responsible for enforcing intellectual property rights with regard to films and videos. Bulgarian legislation provides for criminal, civil and administrative remedies against copyright violation, but because of the small number of court judgments and sentences, law enforcement is still inadequate.

Patents

Bulgarian patent law has been harmonized with EU law in the areas of application for European patents and utility models. Bulgaria joined the Convention on the Granting of European Patents (European Patent Convention) in 2002.

Bulgaria grants the right to exclusive use of inventions and utility models for 20 years from the date of patent application. The term of validity of a utility model registration is four years as of the filing date with the Patent Office. It may be extended by two consecutive three-year periods, but the total term of validity may not exceed 10 years.

Inventions eligible for patent protection must be new, involve an inventive step and be applicable for industrial applications. Article 6 lists items not considered inventions and utility models are specifically defined.

The independent Patent Office is the competent authority with respect to patent matters. The patent law describes the application procedures and the examination process. Applications are submitted directly to the Patent Office and recorded in the state register. Compulsory licensing may be ordered under certain conditions: the patent has not been used within four years of filing the patent application or three years from the date of issue; the patent holder is unable to offer justification for not adequately supplying the national market; or, declaration of a national emergency.

Disputes arising from the creation, protection or use of inventions and utility models can be considered and settled under administrative, court or arbitration procedures. Disputes are reviewed by specialized panels convened by the President of the Patent Office and may be appealed to the Sofia Administrative Court within three months of the panel's decision. Patent infringements are punishable by administrative fines from 300 up to 20,000 BGN.

In 1996, Parliament approved the Protection of New Types of Plants and Animal Breeds Act. This Certificate allows for a term of protection of 25 years for annual plants and 30 years for perennial plants and animal breeds, which starts from its date of issuance by the Patent Office. In 1998, Parliament ratified the 1991 International Convention for the Protection of New Varieties of Plants (UPOV).

Data Exclusivity

Responding to long-standing industry concerns, the GOB included a provision to provide data exclusivity (protection of confidential data submitted to the government to obtain approval to market pharmaceutical products) in its Drug Law, which took effect in April ¶2007.

Trademarks

In 1999, Parliament passed a series of laws on trademarks and geographical indications, industrial designs and integrated circuits in accordance with TRIPs requirements and the government's EU Association Agreement. The Trademarks and Geographical Indications Act, which was amended in 2005 and 2006 to comply with EU standards, regulates the establishment, use, suspension, renewal and protection of rights of trademarks, collective and certificate marks, and geographic indications.

Registration is refused, or an existing registered trademark is cancelled, if a trademark constitutes a reproduction or an imitation or if it creates confusion with a registered or well-known trademark, as stipulated by the Paris Convention and the Trademarks and Geographical Indications Act. Applications for registration must be submitted to the Patent Office under specified procedures.

Right of priority, with respect to trademarks that do not differ substantially, is given to the application that was filed in compliance with Article 32. Right of priority is also established on the basis of a request made in one of the member countries of the Paris Convention or of the World Trade Organization. To exercise the right of priority, the applicant must file a request within six months of the date of original filing.

A trademark is normally granted within eighteen months of filing a complete application. Refusals can be appealed before the Disputes Department at the Patent Office. The decisions of this department

can be appealed before the Sofia Administrative Court within three months following notification. The right of exclusive use of a trademark is granted for ten years from the date of submitting the application. Requests for extension of protection must be filed during the final year of validity, but not less than six months prior to expiration. Protection is terminated if a mark is not used for a five-year period.

Trademark infringement is a problem in Bulgaria for many U.S. manufacturers. Bulgarian legislation provides for criminal, civil and administrative remedies against trademark violation, but due to the low record of court resolutions and effective sentences, law enforcement is inadequate. While more draconian measures are available, such as imprisonment of up to five years, confiscation or fines of up to 5,000 BGN, their application must be significantly stepped up.

In Bulgaria, trademark and service-mark rights and rights to geographic indications are only protected pursuant to registration with the Bulgarian Patent Office or an international registration mentioning Bulgaria; they do not arise simply with "use in commerce" of the mark or indication. Under Bulgarian law, legal entities cannot be held criminally liable. Similarly, criminal penalties for copyright infringement and willful trademark infringement are limited, compared to enforcement mechanisms available under U.S. law.

¶H. TRANSPARENCY OF THE REGULATORY SYSTEM

Major Taxation Issues Affecting U.S. Businesses
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A Treaty for Avoidance of Double Taxation (TADT) between the United States and Bulgaria was signed in 2007. The Treaty applies to direct taxes only and excludes indirect levies, such as value-added and excise taxes, as well as all social contributions. It also applies to all sources of income that residents of either state have received "at source" in the other state. Once it is ratified and enters into force, the TADT is expected to reduce the tax burden for residents of both states, which will stimulate cross-border trade and investment.
A flat 10 percent tax rate on income is in place since January 2008, replacing the old progressive taxation. The new flat income tax matches up with a corporate and profit tax rate of 10 percent making Bulgaria one of the EU member states with the lowest direct taxes. Certain tax incentives, such as an exemption from corporate tax, apply in regions of high unemployment. Physical persons, but not legal ones, in certain trades pay a "patent" tax (presumptive tax), according to a schedule established by Parliament. Since January 1, 2008 the size of the "patent tax" will be determined by and is payable to the municipal authorities. Dividends (and liquidation quotas) distributed by a Bulgarian resident company to U.S. investors are subject to a withholding tax of 5 percent at the source. A 50 percent depreciation rate is applied on investment in new machinery and other equipment, computers and computer software.

The changes introduced in 2008 refer to a new monthly ceiling of BGN 2,000 for social contributions. Employers pay 60 percent of the monthly contributions for social security insurance and health insurance to an unemployment fund, but their share of contributions is slated to decline, in phases, to 50 percent 2010. Employers must contribute for social security insurance and health insurance: 16.3 percent and 3.6 percent of employees' gross salaries, respectively. Companies also contribute one percent of the total wage cost to an unemployment fund which also covers accidents at work. Foreign persons are required to have the same insurance and unemployment compensation packages as Bulgarians.

There is a 20 percent single-rate value-added tax (VAT), except for some tourist services upon which VAT is levied at seven percent rate. VAT registration is mandatory for persons with turnover exceeding BGN 50,000 over a calendar year, while all others can register voluntarily. A new VAT regime is in place for trade in goods between Bulgaria and the other EU member countries.

All goods and services are subject to VAT except exports, international transport, and precious metals supplied to the central bank. VAT payments are generally rebated when goods are resold.

Exporters may claim VAT refunding within a 30-day period. Excise taxes are levied on tobacco, alcoholic beverages, fuels, certain types of automobiles, and gambling.

Foreign investors have asserted that widespread tax evasion, combined with the failure of the authorities to enforce collection, places them at a disadvantage. However, in conjunction with its IMF agreement, the government has strengthened tax collection and limited tax arrears of state-owned enterprises. Another problem underscored by investors is the frequent revision of tax laws, sometimes without sufficient notice. After full harmonization of domestic tax legislation with the EU law, the business environment is expected to become more transparent and predictable.

Regulatory Environment

An abundance of licensing and regulatory regimes, combined with arbitrary interpretation and enforcement by the bureaucracy, and the incentives thus created for corruption, have long been seen as an impediment to investment.

In 2003, Parliament passed the Restriction of Administrative Regulation and Control of Economic Activity Act, which establishes a general and systematized set of rules for simplifying and implementing administrative regulations. The law defines 39 operations that must be licensed and introduces two other simplified regimes, i.e., registration and permit regimes.

From the perspective of regulatory relief, this law is a milestone. It sets forth firm market principles of regulation, such as that regulation at all levels of government must be justified by defined need (in terms of national security, environmental protection, or personal and material rights of citizens) and cannot impose restrictions unnecessary to the stated purposes of the regulation. The law also requires that the regulating authority take account of the compliance costs to be borne by business and that no national-level law can be passed without an impact analysis on the law's economic effect on the regulated activity. In addition, the law eliminates bureaucratic discretion in granting applications for routine economic activities and provides for "silent consent" when the government has not acted upon an application in the allotted time. All these reforms considerably lighten the potential of regulatory abuse at all levels of government and, when implemented, should improve the overall business environment. While the law creates a ground-breaking normative framework, its practical enforcement is dependent upon movement towards a more flexible bureaucratic environment.

Energy Regulator

The Energy Law establishes a transparent and predictable regulatory environment in the energy sector where the key regulatory responsibilities are vested with the State Energy and Water Regulatory Commission - a separate, body with regulatory authorities, and a high degree of autonomy. In mid-2007 the electricity market in Bulgaria was fully liberalized to comply with EU energy legislation. The restructuring of electricity monopolies provided equal market access and fair competition in the sector.

Competition Policy

The 1998 Law on the Protection of Competition (the "Competition Law") is intended to establish and maintain a competitive market. The Competition Law forbids monopolies, restraining agreements, trade restrictive practices, abuse of a dominant market position, and unfair competition, and seeks to promote consumer protection. A company is deemed to have a dominant position if it controls 35 percent or more of the relevant market. A company with a dominant market position is prohibited from: certain pricing practices; limiting manufacturing development to the detriment of consumers; discriminatory treatment of competing customers; tying contracts to additional and unrelated obligations; and the use of economic coercion to cause mergers. The Law prohibits five specific forms of unfair competition: damaging competitors' goodwill; misrepresentation with respect to goods or services;

misrepresentation with respect to the origin, manufacturer, or other features of goods or services; the use or disclosure of someone else's trade secrets in violation of good faith commercial practices; and, "unfair solicitatin of customers" (promotion through gifts and loteries), which may create difficulties for some freign enterprises. Monopoly position can be establshed only by law and for certain categories of activities: railway and postal services; use of atmic energy; production of radioactive materials;and weapons production.

The Competition Law wasoverhauled in 2003, introducing important provisons that expand the competency of the Commission for Protection of Competition (CPC), define the prohibition on misuse of an oligopoly, and impose a single criterion for assessing the significance of planned concentration: the aggregate turnover of the enterprises affected by the concentration.

¶I. EFFICIENCY OF CAPITAL MARKETS/PORTFOLIO INVESTMENT

Since 1997, the Bulgarian Stock Exchange (BSE) has operated under a license from the Securities and Stock Exchange Commission (SSEC). The 1999 Law on Public Offering of Securities regulates issuance of securities, securities transactions, stock exchanges, and investment intermediaries. Comprehensive amendments to this Law establish significant rights for minority shareholders of publicly-owned companies in Bulgaria. In addition, they create an important foundation for the adoption of international best practices for corporate governance principles in public companies.

The infrastructure of the stock exchange has been substantially improved, including the establishment of an official index (SOFIX). In addition to floating company stock and privatization through the exchange, the Bulgarian stock exchange also trades in government bonds, corporate bonds, Bulgarian Depositary Receipts, municipal and mortgage-backed bonds, and Bulgarian Depository Receipts. Raising capital has become increasingly attractive, and more competitive, with the advent of special purpose investment companies (REITs) which are aggressively investing in the economy. In addition, the number of initial public offerings (IPOs) is growing, reaching 23 in ¶2007. Trading has been facilitated by the growing number of investment brokers and a joint database for secure access in place. In the first six months of 2007, the Bulgarian stock exchange recorded a turnover of BGN 2.72 Billion (about 1.9 Billion USD), a notable 86 percent increase on the year. The market capitalization of Bulgarian stock exchange reached BGN 20.78 Billion (about 14.7 Billion USD) at the end of June 2007, an increase by 110 percent on the year. To boost its liquidity, the GOB has announced plans to sell its share in the Bulgarian stock exchange to a world-renown capital and stock market.

The Banking System

The Bulgarian banking system has undergone considerable transformation since its virtual collapse in 1996 and now demonstrates both high predictability and client and investor confidence. There are 30 commercial banks, with total assets of 54.9 billion BGN (about USD 39 billion) and an annual growth of 37.6 percent in November 2007 or 98 percent of the projected 2006 GDP. Approximately 38.7 percent of bank assets are concentrated in three banks: Bulbank, State Saving Bank (DSK), and United Bulgarian Bank (UBB).

Bulgaria has completed the privatization of its state-owned banks, attracting some strong foreign banks as strategic investors. Foreign investors drawn to the Bulgarian banking industry include UniCredito Italiano SpA (UCI), BNP PARIBAS, KBC, National Bank of Greece, Societe Generale, Bank Austria Creditanstalt, American Life Insurance Company - Consolidated Eurofinance Holdings, Regent Pacific Group, and Citibank.

Bulgaria's banking system is highly capitalized. Reflecting expanded lending in recent years, the average capital adequacy ratio (capital base to risk-weighted credit exposures) for the banking system has steadily declined from 43 percent at end-1998 to 13.9 percent in September 2007, but still remains above the Bulgarian National Bank's requirement of 12 percent.

Government Securities

The government finances government expenditures by accessing capital markets. Commercial banks are the primary purchasers of these instruments, while pension funds and insurance companies participate mainly in the secondary market. Foreign banks can participate in the treasury market only through a Bulgarian bank or a branch of a foreign bank, which is licensed in Bulgaria. The foreign bank transfers the money, which is then converted into leva to make the purchase, and must be registered with the Ministry of Finance. The foreign bank must open a lev account (a "custody account") for transactions. This lev account cannot be used as a standard deposit bank account. A foreign currency account can be opened, but it is not obligatory.

The Investment Promotion Act defines securities, including treasury bills, with maturities over six months as investments. Repatriation of profits is possible after presenting documentation that taxes have been paid.

¶J. POLITICAL VIOLENCE

There have been no incidents in recent years involving politically motivated damage to projects or installations. Rather, violence in Bulgaria is primarily criminally motivated.

¶K. CORRUPTION

Corruption is still one of the gravest problems in Bulgaria's investment climate, despite the Bulgarian government's numerous advances in laws and legal instruments. Bulgaria ranks 64th among 180 countries included in Transparency International's (TI) Corruption Perception Index for 2007, down seven places from 2006.

The established human trafficking, narcotics, and contraband smuggling channels that contribute to corruption in Bulgaria have yet to be broken, and serious efforts and political will are still needed to carry out much-needed reforms to address inefficiencies in the judicial system. The Bulgarian public generally holds the police, the judiciary, customs officials, and political parties in low regard, due to their perceived corruption.

Bribery is a criminal act under Bulgarian law for both the giver and the receiver. Penalties range from one to fifteen years' imprisonment, depending on the circumstances of the case, with confiscation of property added in more serious cases. In very grave cases, the Penal Code specifies prison terms of 10 to 30 years. Bribing a foreign official is a criminal act. There have been trials and convictions of enterprise managers, prosecutors, and law enforcement officials for corruption. While Bulgarian tax legislation does not explicitly prohibit the deduction of bribes in the computation of domestic taxes, deductions connected with bribery and other illegal activities are not allowed under the tax code.

Bulgaria has a 1998 Law on Measures against Money Laundering, which also covers bribery, and in 1998 was one of the first non-OECD nations to ratify the OECD Anti-Bribery Convention. Bulgaria has also ratified the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of Proceeds of Crime (1994) and the Civil Convention on Corruption (1999).

The GOB's recent anti-corruption agenda included the adoption of key international anti-corruption instruments, including:
-- signing and ratifying the UN Convention against Corruption (2003);
-- withdrawing the reservations made in 2001 at the ratification of the Criminal Law Convention on Corruption;
-- signing and ratifying the Additional Protocol to the Council of Europe's Criminal Law Convention on Corruption; Bulgaria was the second state to ratify this Additional Protocol;
-- signing and ratifying the UN Convention Against Transnational Organized Crime.

Although the Bulgarian government has achieved some successes in the fight against organized crime and corruption, many observers believe that corruption and political influence in business decision-making continue to be significant problems in Bulgaria's investment

climate.

¶L. BILATERAL INVESTMENT AGREEMENTS

As of February 2007, Bulgaria has foreign investment promotion and protection treaties or agreements with Albania, Algeria, Argentina, Armenia, Austria, Belarus, Belgium-Luxembourg, China, Croatia, Cuba, Cyprus, Czech Republic, Denmark, Egypt, Finland, France, Georgia, Germany, Greece, Great Britain and Northern Ireland, Hungary, India, Indonesia, Iran, Israel, Italy, Jordan, Kazakhstan, Kuwait, Latvia, Lithuania, Lebanon, Macedonia, Malta, Moldova, Mongolia, Morocco, Netherlands, Poland, Portugal, Republic of Korea, Romania, Russia, Singapore, Slovakia, Slovenia, Spain, Sweden, Switzerland, Syria, Thailand, Tunisia, Turkey, Ukraine, the United States, Uzbekistan, Vietnam, Yemen, and Yugoslavia.

Bulgaria has a Bilateral Investment Treaty (BIT) with the United States, which guarantees national treatment for U.S. investments and creates a dispute settlement process. The BIT also includes a side letter on protections for intellectual property rights. The Governments of Bulgaria and the United States exchanged notes in 2003 to make Bulgaria's obligations under the BIT compatible with its EU obligations, and finalized the process in January, 2007.

¶M. OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

In 1991, the Overseas Private Investment Corporation (OPIC) (www.opic.gov) and the GOB signed an Investment Incentive Agreement, which governs OPIC's operations in Bulgaria. OPIC provides medium- to long-term funding through direct loans and loan guarantees to eligible investment projects in developing countries and emerging markets. OPIC also supports a number of privately owned and managed equity funds, including a regional fund for Southeast Europe created in 2005 for investments in companies in Bulgaria and other Balkan countries. OPIC's Small- and Medium-Size Financing is available for businesses with annual revenues under 250 Million USD. OPIC's Structured Financing focuses on U.S. businesses with annual revenue over 250 Million USD and supports large-scale projects that require large amount of capital, such as infrastructure, telecommunications, power, water, housing, airports, hi-tech, financial services, etc.

OPIC offers American investors insurance against currency inconvertibility, expropriation, and political violence. Political risk insurance is also available from the Multilateral Investment Guarantee Agency (MIGA), which is a World Bank affiliate, as well as from a number of private U.S. companies.

¶N. LABOR

Bulgaria's workforce officially consists of 3,550,600 (third quarter of 2007) highly educated and skilled men (53 percent) and women (47 percent). The adult literacy rate in Bulgaria is 98 percent. A high percentage of the workforce has completed some form of secondary, technical, or vocational education. Many Bulgarians have strong backgrounds in engineering, medicine, economics, and the sciences, but there is a shortage of professionals with Western management skills. The demand for skilled managers is increasing with the advent of high technology, innovative and knowledge-based companies from the EU. The aptitude of workers and the relative low cost of labor are considerable incentives for foreign companies, especially those that are labor intensive, to invest in Bulgaria.

Bulgaria's Constitution recognizes workers' right to join trade unions and organize. The National Council for Tripartite Cooperation (NCTC) provides a forum for dialogue among government, national-level employer organizations, and national-level trade unions, on issues such as cost-of-living adjustments. The current government has substantially revitalized the Council improving relations between management and trade unions. A tri-partite pact for social and economic development - the first of its kind - until 2009 was signed in 2006.

Bulgaria has two large trade union confederations represented at national level, the Confederation of Independent Trade Unions of Bulgaria (CITUB) and Confederation of Labour "Podkrepa" ("Support"). At the end of 2007, the estimated trade union membership is about 200 000 for CITUB and between 70 000-75 000 for CL "Podkrepa". CITUB, the successor to the trade union integrated with the

Communist Party was reformed and has long since severed its ties to the socialists, whereas Podkrepa is an independent confederation. There are very few restrictions on trade union activity and the confederations operate freely, but the workforce in smaller firms in the private sector is often not represented by trade unions. In addition, there are six nationally recognized employer organizations currently in Bulgaria which target different industry and company membership.

Under the Labor Code, employer and employee relations are regulated by employment contracts. The framework of the employment contracts can be shaped through collective bargaining. Following the Labor Code, collective agreements (collective labor contracts) can be concluded at the sectoral level, enterprise level and municipal level (only for activities financed by the budget). The Labor Code addresses worker occupational safety and health issues, establishes a minimum wage (determined by the Council of Ministers), and prevents exploitation of workers, including child labor. The Code clearly delineates employer rights, strengthening management's hand in disciplining the workforce. Disputes between labor and management can be referred to the courts, but resolution is often subject to delays. The idea for establishing so-called "labor courts" has so far been in deadlock. Neither foreign companies, nor Bulgarian companies having majority foreign-control are exempt from the requirements of the Labor Code.

Over the last three years, the Labor Code has been amended to address labor market rigidities and bring labor legislation into compliance with the EU social policy and employment requirements. The amendments to the Labor Code simplify additional work procedures, restrict mandatory leaves, and relax procedures for implementing collective redundancies. The minimum annual paid leave is 20 days. Effective January 1, 2008, the minimum monthly salary is 220 BGN.

During 2002-2003, the Ministry of Labor formed the new "National Institute for Conciliation and Arbitration" (NICA), which developed a framework for collective labor dispute mediation and arbitration. NICA includes representatives from labor, employers, and the Government, as does the roster of mediators and arbitrators. Although NICA-sponsored collective labor dispute resolutions are still few - and its work therefore ineffectual - a number of the appointed mediators received basic mediation skills training from the U.S. Federal Mediation and Conciliation Service.

¶O. FOREIGN TRADE ZONES/ FREE TRADE ZONES

The 1999 Customs Act renamed the six duty-free zones "free zones." Foreign, including U.S., individuals and corporations, and Bulgarian companies with 1.0 percent or more foreign ownership may set up operations in a free zone. Thus, foreign-owned firms have equal or better investment opportunities in the zones compared to Bulgarian firms.
There are at present six operational "free zones" in Bulgaria: Ruse and Vidin ports on the Danube; Plovdiv; Svilengrad (near the Turkish border); Dragoman (near the Yugoslav border); and, Burgas port on the Black Sea. They are all managed by joint stock or state-owned companies. The government provided land and infrastructure for each zone.

All forms of production and trade activities and services may take place in the free zones. Foreign, non-EU goods delivered to the free zones for production, storage, processing, or re-export are VAT and duty exempt. Bulgarian goods may also be stored in free zones with permission from the customs authorities. With Bulgaria now in the EU, the export of goods of EU origin via the FTZs has lost its luster, as the new VAT regime requires full price payment, VAT inclusive, before selling it into another EU Member State.

EU integration has encouraged regional authorities to attract outside investors and spur local economic development. In partnership with the private sector, they provide resources (ground, infrastructure, etc.) for the development of industrial zones and parks, which are different from FTZs as they do not provide for any form of preferential tax treatment. International and local investors can use the favorable factors, such as low-cost and educated labor and easy access to the local market, to relocate their business. Currently, the most advanced projects are the

industrial zones in Sofia, Rakovski, Panagyurishte, Stara Zagora, Silistra, Pazardzhik, Kardzhali, Dobrich, Varna and Ruse.

¶P. FOREIGN DIRECT INVESTMENT

Between 1992 and 2006, total cumulative FDI into Bulgaria amounted to USD 20,199.7 billion (about 64 percent of estimated 2006 GDP). FDI in Bulgaria totaled $5.1 billion in 2006. Bulgaria's direct investment abroad was a total of USD 172 million in 2006. In the period of January through September Bulgaria's direct investment abroad increased by USD 197 million.

FDI by Year (millions of U.S. dollars)

1992	34.4
1993	102.4
1994	210.9
1995	162.6
1996	256.4
1997	636.2
1998	620.0
1999	818.8
2000	1,001.5
2001	812.9
2002	969.7
2003	2,096.9
2004	3,443.4
2005	3,861.9
2006	5,171.7
Total	20,199.7

Source: Invest Bulgaria Agency)

FDI by Country of Origin 1992-2006 (millions of USD)

Austria	3,454.1
Netherlands	2,075.3
Greece	1,819.5
U.K.	1,586.3
Germany	1,207.2
Italy	960.4
Hungary	865.4
Czech Republic	851.6
Belgium and Luxemburg	823.1
Switzerland	822.1
USA *	817.6
Cyprus	766.6
Ireland	465.4
France	335.0
Spain	338.2
Russia	371.6
Turkey	273.3
Denmark	193.5
Israel	117.5
Japan	102.0
Sweden	94.3
Malta	78.3
Liechtenstein	57.0
Canada	56.2
Panama	53.6
Slovenia	47.4
Latvia	45.8
Romania	43.3

(Source: Invest Bulgaria Agency)

* Official GOB investment statistics currently rank the United States as 11th in terms of overall investment in Bulgaria for the period 1992-2006. While the Central Bank credits the United States with investments at the rate of USD 40-50 million per year in the last eight years, this data is incomplete as many U.S. investors establish European subsidiaries to manage their investments in Bulgaria.

FDI by Sector 1998-2006 (millions of USD)

Real estate and business activities	3,784.6
Financial activities	3,151.6
Trade and repairs	3,028.5
Electricity, gas and water	1,631.0

Petroleum, chemical, Rubber Plastic	1,209.3
Telecommunications	1,045.2
Construction	888.1
Metallurgy and metal products	859.5
Mineral products (cement, glass)	635.4
Food products	399.6
Textile and clothing	304.1
Hotels and restaurants	259.5
Machine-building	231.7
Wood products, paper	228.1
Electrical eng., electronics, computers	178.3
Transport	126.2
Mining	50.4
Agriculture, forestry and fishing	44.6
Leather and leather products	22.1
Vehicles and other transport equipment	12.6

(Source: Invest Bulgaria Agency)

Selected 2006/2007 Foreign Direct Investments

(Investor, Country, Sector, Bulgarian Firm, USD millions)

-- CEZ, Czech Republic, energy, West electricity distribution, 366
-- OTP, Hungary, finance, DSK Bank, 363.7
-- EVN, Austria, energy, Southeast electricity distribution, 352
--Tishman Property Company, U.S., Sofia Airport, 344
-- E.ON, Germany, energy, Northeast electricity distribution, 183
--OTE, Greece, telecommunications, Cosmo Bulgaria Mobile, 173.9
--Cumerio Med AD, Belgium, copper refinery and smelter Pirdop, 170
--Sisecam, Turkey, glass industry, Greenfield glass plant, 160
--Petromax, Austria, Crude oil refnery Silistra, 152.1
--Carrefour, France, food rtail, Hypermarket Sofia, 103
--Tokushukaial Corp, healthcare, Tokuda Hospital Sofia, 90
--Pireusank, Greece, banking, Evrobank AD, 62.6
-- Miroglio, Italy, textile, Miroglio Bulgaria, 50.2
-- Umcore, Belgium, metals, Umicore Med, 48.1
--Melexs, Belgium, automotive electronics, 38
(Source: Invet Bulgaria Agency)

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